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ABSTRACT

Congressional debate over modification and reform of Title IV, Student Assistance of the Higher Education Act of 1965 is discussed. The 1965 Congressional hearings on the 1965 Act, up for reauthorization in September 1979, are expected to continue into 1980 before Congress finally approves a bill. Title IV implements the federal philosophy that no student should be denied a higher education because of financial need. Within this Title, two programs that will be significantly altered are the Basic Educational Opportunity Grants program and the student loan programs, including the National Direct Student Loan program (NSDL) and the Guaranteed Student Loan program (GSL). Problems that have developed in these programs and current proposals for reforming them are discussed. The growing debate over the student-aid "packaging" concept as a means of achieving equitable aid distribution is also addressed. A bibliography and titles of the Higher Education Act as they appear in the proposed House bill are also included. (SW)

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REAUTHORIZING THE HIGHER EDUCATION ACT OF 1965

By Carol Herrnstadt Shulman

The federal legislation that has dominated higher education policy and financial debates over the past fifteen years is once again the focus of national scrutiny. The Higher Education Act of 1965 was up for reauthorization in September 1979; congressional hearings began last spring and are expected to continue into 1980 before Congress finally approves a bill.

One major subject dominates this extended congressional debate: modification and reform of Title IV, Student Assistance. As the foundation for federal policy toward higher education, this Title commands the most interest and controversy. Through its student assistance programs, Title IV implements the federal philosophy that no student should be denied a higher education because of financial need; further, it is the major channel for aid to higher education. In the Administration's 1980 budget, the Student Assistance category constitutes approximately 83 percent of the Office of Education's funds allocated to higher education (*The Budget of the United States* n.d.).

Within this Title, two programs will be significantly altered: the Basic Educational Opportunity Grants program and the student loan programs, including the National Direct Student Loan program (NDSL) and the Guaranteed Student Loan program (GSL). This *Research Currents* serves as a guide to the debate on these programs. It discusses the problems that have developed in these programs and describes current proposals for reforming them. At this time, the House has completed work on its version of the Higher Education Act,* but the Senate has just begun its own hearings; therefore, while the outcome is somewhat uncertain, some informed forecasting can be done.

Historical Context

The Higher Education Act of 1965 (HEA) initiated a new era in the federal-higher education relationship by making a national commitment to higher education as an important and continuing dimension of federal policy. (Gladieux and Wolanin 1976, p. 12). This commitment evolved from the 1960s perception that higher education could be a force in the national effort to achieve social equality by providing educational opportunity to a wider range of students (Gladieux and Wolanin 1976).

In the 1972 reauthorization of the HEA, Congress substantially changed the character of federal aid to higher education. It made student aid the dominant focus of federal policy by adding the Basic Educational Opportunity Grant program to Title IV and by giving priority to appropriations for student aid programs over institutional aid (Title IV, Subpart 6, HEA of 1965, as amended; Gladieux and Wolanin 1976). With these changes, the underlying assumptions about the primary purpose of federal aid to the academic community were clearly articulated: the federal role is to provide students with access to postsecondary educational opportunities. The resulting benefits to colleges and universities are subordinate to student access.

This philosophy also provides the agenda for the present reauthorization of Title IV. In looking at the student aid programs, Congress will examine their performance in light of equity to students, as well as federal costs and federal oversight problems.

Title IV—Student Assistance

In 1972, the HEA reauthorization debate over how to support higher education was resolved in favor of student aid over institutional aid as a means of providing equitable access and is no longer an issue. In the current reauthorization process, participants are concerned with fine-tuning the present system to make it distribute financial aid ever more equitably, and with responding to the erosion of the aid programs caused by inflation.

The discussions over two Title IV programs—Basic Educational Opportunity Grants and student loan programs—reflect these concerns. Moreover, there is growing debate over the student-aid "packaging" concept as a means of achieving equitable aid distribution, and this concept may also be a factor in the 1980 evolution of Title IV programs.

Basic Educational Opportunity Grants—In preparation for reauthorization hearings on the HEA, Representative William D. Ford, chairman of the Subcommittee on Postsecondary Education, asked the postsecondary education community to submit legislative proposals for the committee's consideration (see *Legislative Recommendations* 1979). The resulting proposals for the Basic Educational Opportunity Grant (BEOG) program reflect the concern of different interest groups to provide improved access for their constituents. The proposals indicate a consensus on what issues are important in the BEOG program, although there may be sharp disagreement over how to resolve them. As reflected in these early proposals, the BEOG program needs reform in four major areas: (1) BEOG as an entitlement, (2) current half-cost limitations, (3) needs assessment, and (4) part-time and adult students.

- *Entitlement:* At least fifteen higher education associations have endorsed the proposal that BEOG be an entitlement (American Association for ... 1979). An "entitlement" would guarantee, by law, that BEOG recipients would get a specified sum of money, based on their eligibility credentials and independent of an annual appropriations process. Currently, the amount of a BEOG grant depends on the total funds appropriated annually for basic grants. For example, the maximum basic grant was just $452 in academic year 1973-74 and only reached its authorized maximum in the 1978-79 academic year (*Basic Grants* ... 1979). The House bill does not provide for entitlement, but when there is less than full funding, it does stipulate that "students whose eligibility for a Basic Grant is within $200 of the maximum grant will be paid the full amount of their grant first" (Summary of ... 1979, p. 9). Subsequent grants will be reduced according to a schedule. The minimum BEOG award is raised from $50 to $100.

*A description of the House-proposed titles in the HEA follows the Currents.

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• *Half-Cost limitation:* Current law provides that the BEOG shall be no more than half the cost of attendance, including tuition, room, board, fees, and other expenses, or $1,800 less the expected parental contribution, whichever is the smaller amount (Hartman 1978). In their original proposals, the independent sector sought to retain this provision while spokesmen for the public institutions wanted to replace it with one that better met their students' financial needs (although it had not produced its own formal proposal for revising the half-cost rule). Subsequently, the independent and public sectors united behind a proposal to revise the BEOG formula, which the Subcommittee on Postsecondary Education adopted. The new plan is designed to satisfy the needs of both sectors, to expand the distribution of BEOG benefits and to "maintain the value of the award against inflation" (Yarrington et al. 1979). This formula, which has been incorporated into the House bill, provides that:

> • In FY 81 (81-82 academic year) the Basic Grant maximum would increase from $1,800 to $2,160, accompanied by an increase of the half-cost limitation from 50 to 60 percent of cost. In both cases the new levels would be 20 percent over current legislation.
> • In FY 83 (83-84 academic year) the Basic Grant maximum would increase to $2,400, accompanied by an increase in the percentage-of-cost limitation to 67 percent. In both cases the new levels would be 33 percent over current legislation.
> • In FY 85 (85-86 academic year) the Basic Grant maximum would increase to $2,700, accompanied by an increase in the percentage-of-cost limitation to 75 percent. In both cases the new levels would be 50 percent over current legislation (Yarrington et al. 1979).

Currently, where the BEOG maximum is $1,800, a student attending an institution that costs $1,800 per year can receive a maximum of $900 in BEOG benefits. Under the new plan, that student would receive $1,080, or 60 percent of a maximum grant of $2,160, during the first step. The second step would allow a maximum grant of $2,400 or $1,200 (67 percent) at the same institution. Finally, the maximum of $2,700 (or 75 percent) would provide a student with $1,350 at an institution costing $1,800 (Yarrington et al. 1979).

• *Needs Assessment:* "Need" is the difference between expected student and parental contribution to education costs and the price of education. The "expected contribution" has always been a source of controversy, since the federal government and independent financial analysts disagree over what individuals at different income levels should be able to contribute. Three issues need to be resolved: (1) What criteria should be used and how should they be weighted when assessing ability to pay? (2) Whose parental contribution schedule should be used? Differences between the CSS/ACT schedule and the BEOG schedule in effect since the passage of the Middle Income Student Assistance Act of 1978 raise questions about which schedule provides more equitable treatment (Carnegie Council 1979), and (3) How should the income of independent adult students, with or without dependents, be assessed for their contributions? Currently, families with dependent students are assessed at a rate of 10.5 percent of discretionary income, while independent students with a spouse are assessed at 50 percent, and with a spouse and other dependents at 40 percent (Coalition for Alternatives . . . 1979). Addressing these conflicts, the House bill requires the development of a single needs analysis system for determining students' eligibility for assistance. It also requires the higher education community to participate in the development of an annual schedule of expected family contributions. Further, independent students with dependents will be assessed at the same rate as families of dependent students ("Summary of . . . 1979).

• *Part-time and Adult Students:* Supporters of adult students challenge the BEOG eligibility requirement that restricts rewards to undergraduate enrollment and to students attending at least on a half-time basis (Coalition for Alternatives . . . 1979). These requirements limit the participation in the BEOG program of part-time students who constitute about 41 percent of the postsecondary education population (Hamilton 1979) and are enrolled in nontraditional programs that do not fit the BEOG requirement. Adult student advocates therefore support remedies that would enhance these constituents' participation in BEOG and other student aid programs. The House bill makes no changes in this requirement.

Student Loan Programs—Title IV's Guaranteed Student Loan (GSL) and National Direct Student Loan (NDSL) programs satisfy no one—the Congress, the administration, or even some borrowers. One critic sums up these programs' problems and the themes of recommendations for reform:

> [Current programs] are irrational, inconsistent, and somewhat deceptive. . . . If there are to be loan programs, they should have adequate capital, be accessible to students, be repayable on terms that are manageable for borrowers and lenders alike, be efficiently serviced and rigorously policed, and be forthright about true costs to the taxpayer and sensible about the deployment of subsidiaries (Finn in Rice 1977, p. 4).

Clearly the loan programs are one area that is ripe for change. Under the NDSL*, participating schools make loans to students from a revolving fund set up by federal and institutional contributions on a nine-to-one ratio, respectively. Loans are limited to $2,500 for the first two years of undergraduate study, a total of $5,000 for undergraduate study, and a maximum of $10,000 through graduate school. Institutions establish repayment schedules of up to ten years. Repayment at 3 percent interest begins nine months after the student leaves school, with deferments and cancellations for specific kinds of public service. Institutions are also responsible for overseeing the entire loan operation, but defaults are ultimately turned over to the federal government for collection.

In contrast, the GSL works through commercial lenders, schools, and state agencies, using private or public capital. Federal loan limits are $2,500 per academic year for undergraduates with a cumulative limit of $7,500, and $5,000 annually for graduate and professional students, and with a maximum aggregate limit of $15,000 inclusive of earlier loans. Lenders may set their own limits and eligibility criteria. Repayment periods may be between five and ten years, and interest is charged at 7 percent after leaving school. The Student Loan Marketing Association ("Sallie Mae") and some state agencies provide a secondary market for GSL loan paper.

Under the GSL, the federal government insures or reinsures the loans against default, subsidizes the lender by paying a variable allowance (now 5 to 8 percent) above the student's 7 percent, pays full interest on the loan while the student is enrolled, makes loan capital available to Sallie Mae, and supports the state guarantee agencies through several strategies.

Taken together as the basic federal loan system, these programs have proven largely unsatisfactory by virtually every criterion of a successful loan program.** (1) *Adequate capital.* The GSL program depends on the willingness of banks nationwide to make student loans. Banks differ in how much money they will lend and to which students. Often, the neediest students are left out; the NDSL program depends on institutional participation, which is not universal; in addition, high student default rates result in decreased institutional capital available for new loans. (2) *Accessibility.* The loan programs present access problems simply because they are so complex. Here too, the GSL program is especially troublesome because while students must seek out banks on their own that are willing to lend money, there is no uniform national bank policy to guide them in their search. Their success may depend on geographic region, personal background, and the current financial market. (3) *Repayment problems.* Inflexible repayment schedules pose problems for just-graduated students and contribute to a high default rate. (4) *Administrative complexity.* Many of the loan

*This discussion is based on "Loan Programs: An Overview" 1979.

**The following is based on Califano 1979a.

functions are divided among several agencies as in the GSL program, which promotes cumbersome and inefficient program managment. For example, GSL collections may involve the original lender, a state agency, Sallie Mae, and the Office of Education. (5) *Program costs.* Recent reports have publicized the high costs of loan programs. Student defaults have attracted the most attention, but the real cost problems lie in the government's subsidy of the loan programs. The NDSL program was expected to be self-supporting after its start-up period, with repayments constituting an institutional revolving fund, but this situation has never existed. Instead, the program relies on annual federal appropriations to substain it for two reasons. First, the high default rate means institutions receive less return on their capital so that federal infusions are necessary to keep the program going; and second, the 3-percent interest rate is substantially below increases in college costs, so that "the effective purchasing power of the pool of NDSL loan money will continue to shrink whether collections are adequate or not" (Califano 1979a, pp. 22-23). Under the GSL program, interest costs are already substantial, and increased participation is expected to escalate them even further. In fiscal year 1979, for example, the GSL interest subsidy was $517,208,900 and an appropriation for $793,624,000 was requested for 1980 (Linney and Ross 1979). Advocates of loan reform recommend programs that are expected to be more rational and efficient, and that consolidate or simplify the present system. Thus, proposals for a "national student loan bank" have perennial appeal (see Carnegie Council 1979; Hartman in Rice 1977).

In the current reauthorization process, proposals that seems to hold the greatest promise for serious consideration by Congress would modify the existing programs, rather than redraft them completely. The most promising of these has been the Kennedy-Bellmon "National Student Loan Reform Act of 1979" (S. 1600), which would develop loan funds through two avenues. First, the Student Loan Marketing Association would raise loan funds through the Federal Financing Bank for distribution through state education agencies to colleges and universities. The campus financial aid officers then would lend funds based on a formula provided in the legislation (i.e., the cost of college, less scholarship and other funds, and less a reasonable parental contribution, as determined by the needs analysis system used under the BEOG program). Repayment at 7-percent interest would begin after the student left school, but interest would not accrue while the student was in school. State agencies and Sallie Mae would be responsible for loan collection, and optional repayment schedules would be available to the student (Kennedy 1979).

In addition, parents would be able to borrow funds, up to the amount of their parental contribution, from private lenders. Their interest rate would be the Treasury rate minus 1 percent. The federal government would encourage such loans by guaranteeing them and by providing banks with the "special allowance" they now receive under the GSL (Kennedy 1979).

Despite general dissatisfaction with the current loan system, the House did not overhaul the loan programs.* Instead it found that substantive questions about the programs needed to be answered before major changes could be made. It therefore authorizes a National Commission on Student Assistance to look at issues such as reduction of defaults, appropriate student-aid packaging, capital availability, and the effect of all forms of assistance on student performance while in school and future educational career choices. The Commission would be in force for two and one-half years.

In the interim, the House bill calls for some changes in the GSL program: (1) increase parents' ability to pay for their children's education, (2) increase availability of loan capital, and (3) curb the default rate. *First,* a parent loan program is established under which parents could borrow up to $3,000 per year to a total of $15,000 for any one student. Interest would be 7 percent, without an in-school subsidy. Several repayment options would be available. Parent and student loans could not exceed the cost of education less other student aid. The parent loan program is identical to the GSL program in all other respects. *Second,* Sallie Mae would be permitted to lend funds directly to students and parents in areas where there is a major shortage of student-loan capital. It could also grant consolidation loans to a borrower who has loans from more than one lender or more than $5,000 in loans under the NDSL and GSL. If the total indebtedness is more than $7,000, Sallie Mae could make a new loan with graduated or income-sensitive repayment terms of up to twenty years. *Third,* the Subcommittee believes that these first two changes "should effectively prevent defaults" (Summary 1979, p. 11).

Packaging Student Aid

Traditionally, campus student financial aid officers have been responsible for putting together an array of resources in a "package" that constitutes the student's financial assistance program. The federal role in this packaging process grew in 1972 with the introduction of the BEOG program as the foundation for federal financial aid. However, campus officials are still responsible for deciding how this and other resources should be combined for the student's benefit.

In the current reauthorization process, the packaging concept is being reexamined in light of several proposals that call for a student "self-help" contribution as a voluntary or mandatory component of the student-aid package. These proposals differ from the parental contribution built into present aid programs because these new plans would consider self-help as an additional component in the total package. If implemented, such proposals might increase the federal role in packaging because they would introduce a new element in campus-based decisions on aid packaging.

Conclusions

The House version of the HEA may serve as a blueprint for the final legislation since the House Subcommittee on Postsecondary Education seized the initiative in the reauthorization process. Chairman Ford called for and received detailed legislative proposals for reauthorization, conducted extensive hearings, and, finally, elicited a plan for the BEOG program that has broad community support. It is too early, however, to predict what form the HEA will take, since Senator Pell's Subcommittee on Education, the Arts, and the Humanities only began its hearings in October of this year.

Unlike 1972, no revolutionary changes are prophesied; nevertheless, any amendments that are made are likely to affect student assistance programs, which in turn have an impact on institutional finances and viability.

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PROPOSED HOUSE H.E.A. BILL

Described below are the titles of the HEA as they appear in the House bill. The explanations of the titles are based on "Summary of H.R. 5192 . . . 1979." Current titles are given in parentheses.

Title I—Education Outreach Programs (Community Service and Continuing Education Programs). This title focuses on providing outreach services to adults who have not been adequately served by postsecondary education. It incorporates the current Title I, the authorization for comprehensive state planning from Section 1203, the authority for Education Information Centers from Title IV and some elements of Titles VI and Title X.

Title II—College and Research Library Assistance and Library Training and Research (College and Library Assistance and Library Training and Research). Part A would provide resource development grants up to a maximum of $10,000 to individual institutions, consortia arrangements, etc. Maintenance of effort provisions are strengthed. Part B, Library Training, Research and Development, would provide equal funding of each function, with the addition of special purpose grants from part A. A new part D establishes the National Periodicals Center, a national depository for periodical materials.

Title III—Strengthening Developing Institutions. Developing institutions are identified as those with a high enrollment of low-income students and low per capital expenditures. Applicants must provide a comprehensive plan for their Title III funds. Grants will be awarded for one to three years, or four to seven years; the latter recipients may not reapply for Title III aid. The 24 percent setaside for community colleges is established as a floor only. The requirement for cooperative arrangements is repealed.

Title IV—Student Assistance. In addition to the changes discussed in the text, the Supplemental Educational Opportunity Grant program has some changes: an increase in the SEOG threshold, up to $400 million, which must be met before BEOG funds are appropriated; the elimination of matching requirements; and permission for institutions to use up to 10 percent of their SEOG funds for awards to less than half-time students. Finally, a provision that up to 75 percent of a student's cost of education should be met through a combination of family contribution and grant aid. This provision was advocated by the higher education community to assure that both the public and independent sectors continue to share in the funding of SEOGs.

Title V—Teacher Training Programs (Teacher Corps and Teacher Training Programs). No limit on salaries for teacher interns in the Teacher Corps programs; cooperation between local education agencies and higher education institutions in the Teacher Center program is fostered. Greater emphasis on continuing education of teachers in the use of technology, telecommunications, and testing; grants to schools of education for upgrading their faculty and curriculum to meet current needs.

Title VI—Foreign Studies and Language Development (replacing Teacher Corps and Training Programs. This new title incorporates Title VI, National Defense Education Act, Language and Area Studies, and some provisions from the International Education Act to "stimulate and support international and foreign language studies."

Title VII-Construction, Reconstruction, and Renovation of Academic Facilities. Gives new authority to support improvement of research facilities including libraries and compliance with Section 504.

Title VIII—Cooperative Education. Authorization levels are increased, and programs may now include alternate or "parallel" periods of work and study.

Title IX—Graduate Programs. References to "expansion" of graduate programs are eliminated, and all programs are continued through FY 1985. The Commissioner must collect data annually on the state of graduate education and must also undertake a special two-year study of graduate student financing. The authorization for Assistance for Training in the Legal Profession is increased. The Public Service Fellowship program will also be directed to attracting students from disadvantaged backgrounds.

Title X—Fund for the Improvement of Postsecondary Education (Community Colleges and Occupational Education). FIPSE is transferred from the General Education Provisions Act. The Board of the Fund is given a statutory base. Part C of Title X creating the Bureau of Occupational and Adult Education and the Community College Unit is retained.

Title XI—Urban Grant University Program (Law School Clinical Experience). A new title, it would provide assistance to urban educational institutions to develop, with local officials, responses to urban problems. Grants will be awarded on a competitive basis to institutions to provide applied research and service projects for their cities.

The Law School Clinical Experience program is broadened to encourage students' preparation in all legal skills.

Title XII—General Provisions. The mechanism by which states provide assurances to the federal government for their participation in HEA programs is simplified.